



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Coventry Health and Life Insurance Company for the period
ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Coventry Health and Life Insurance Company for the period ended December 31, 2012 together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Coventry Health and Life Insurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Coventry Health and Life Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 19th day of May, 2014.



John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

FILED

MAY 29 2014

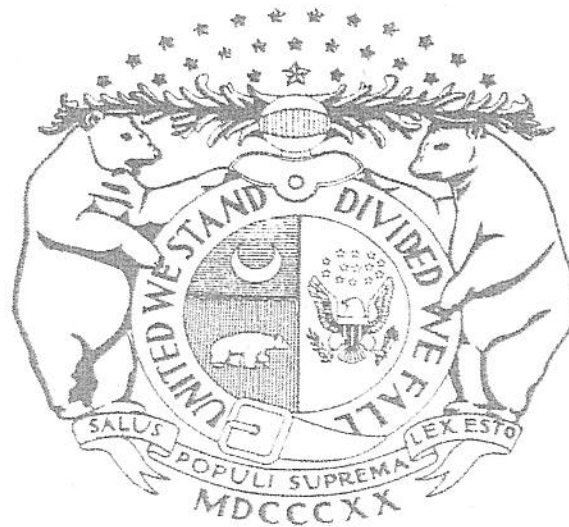
**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**

**REPORT OF
FINANCIAL EXAMINATION**

**Coventry Health and Life Insurance
Company**

As of:

DECEMBER 31, 2012



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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April 3, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Coventry Health and Life Insurance Company

hereinafter referred to as such or as (CHLIC) or as the (Company.) The Company's main administrative office is located at 6705 Rockledge Drive, Suite 900, Bethesda, MD 20817, telephone number (717) 671-2474. This examination began on November 11, 2013 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of CHLIC. The last examination of CHLIC was completed as of December 31, 2007, by examiners from the state of Delaware. This examination also included material transactions or events occurring subsequent to December 31, 2012.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (DIFP) or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Ernst & Young LLP, for its audit covering the period from January 1, 2012, through December 31, 2012. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

Management fees related to certain intercompany agreements with Coventry Prescription Management Services, Inc. (CPMS) were found to be improperly reported on the 2012, Underwriting and Investment Exhibit - Part 3. The fees were understated by approximately \$72.5 million, with corresponding understatements of revenue (due to improper revenue offsets) and overstatements of claims expenses. This reporting error had no impact on the Company's net income or surplus. In addition, fees paid to CPMS were not listed on the Form B Supplement, which reports fees between insurers and affiliates.

SUBSEQUENT EVENTS

On May 7, 2013, the Company's ultimate parent, Coventry Health Care, Inc., was acquired by Aetna, Inc.

The Company provided the DIFP a notice of termination for most of its intercompany reinsurance agreements effective January 1, 2014, indicating that with Coventry's acquisition by Aetna, and Aetna's strong financial performance and credit ratings, the agreements were no longer necessary. Terminated agreements accounted for approximately two thirds of the 2012 assumed premium.

COMPANY HISTORY

General

The Company was originally incorporated in the State of Texas under the name American Service Life Insurance Company with a continuous date of incorporation of April 15, 1968. On September 27, 1987, Coventry Corporation, a Delaware corporation and then ultimate parent corporation in the Insurance Holding Company System, acquired all the issued and outstanding stock of the Company. On April 6, 1991, Coventry Corporation became a publicly held corporation.

On November 17, 1997, Coventry Corporation formed Coventry Health Care, Inc. (CHC) as its wholly-owned subsidiary. On April 1, 1998, in a business combination, Coventry Corporation became a subsidiary of CHC, and CHC became the publicly held corporation and the ultimate parent of the Insurance Holding Company System. On June 22, 2000, Coventry Corporation was merged with and into CHC, with CHC becoming the direct parent of the Company.

The Company's articles of incorporation and bylaws were amended in December 1995 to change the name of the Company to its present name, Coventry Health and Life Insurance Company.

Effective May 14, 1999, the Company re-domesticated from Texas to Delaware.

The Company completed three statutory mergers during the examination period. On August 8, 2008, the Company merged with an affiliated health plan, Vista Insurance Plan, Inc.; on December 31, 2010, the Company merged with Preferred Health System Insurance Company; and on May 1, 2011, the Company merged with Mercy Health Plans.

Effective December 20, 2012, the Company re-domesticated from Delaware to Missouri. The Company's articles of incorporation were amended and restated during the re-domestication process, in order to conform to Missouri law. The amended and restated articles of incorporation were accepted by the Missouri Secretary of State on November 5, 2012, and became effective on the date of re-domestication.

Capital Stock

The Company is authorized to issue 1,000 shares of common capital stock with a par value of \$2,500 per share. As of December 31, 2012, all authorized shares were issued and outstanding resulting in a balance in the common capital stock account of \$2,500,000. All shares are held by the Company's parent, CHC.

Dividends

The Company paid the following cash dividends to its stockholder during the examination period.

<u>Year</u>	<u>Amount</u>
2008	\$ -
2009	-
2010	140,000,000
2011	50,000,000
2012	-
	<u>\$ 190,000,000</u>

Acquisitions, Mergers and Major Corporate Events

During the examination period the following companies were merged into Coventry Health and Life Insurance Company: Vista Insurance Plan, Inc., 2008; Preferred Health System Insurance Company, 2010; and Mercy Health Plan, 2011.

Subsequent to the examination period on May 7, 2013, the Company's ultimate parent, Coventry Health Care, Inc., was acquired by Aetna, Inc.

Surplus Debentures

No surplus debentures were issued or outstanding during the current examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. Effective December 20, 2012, the Company re-domesticated from Delaware to Missouri. The Company's articles of incorporation were amended and restated during the re-domestication process, in order to conform to Missouri law. The amended and restated articles of incorporation were accepted by the Missouri Secretary of State on November 5, 2012, and became effective on the date of re-domestication.

The minutes and written consents of the shareholder and the Board of Directors were reviewed for the period under examination. The minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of nine (9) directors authorized by the Company's bylaws. The directors serving at December 31, 2012, were as follows:

Shirley R. Smith Bethesda, MD	Senior Vice President and Secretary CHLIC and CHC
Michael D. Bahr Bethesda, MD	President, CHLIC Executive Vice President, CHC
John J. Ruhlmann Bethesda, MD	Treasurer, CHLIC Senior Vice President and Corporate Controller, CHC
Jonathan D. Weinberg Bethesda, MD	Assistant Secretary, CHLIC Senior Vice President, CHC
Timothy E. Nolan Bethesda, MD	Executive Vice President, Governmental Programs CHLIC and CHC
Melinda L. Tuozzo Bethesda, MD	Director and Assistant Treasurer, CHLIC Senior Director, Tax; CHC
Michael G. Murphy Louisville, KY	Vice President, Medicaid CHLIC
Roman Kulich St. Louis, MO	Chief Executive Officer Coventry Health Care of Missouri
Thomas C. Zielinski Plymouth Meeting, PA	Executive Vice President and General Counsel CHC

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2012, were as follows:

<u>Name</u>	<u>Position</u>
Michael Dean Bahr	President
Shirley Ann Roquemore Smith	Vice President and Secretary
John Joseph Ruhlmann	Corporate Controller/Treasurer
Tuvy Guss	Actuary
Jonathan David Weinberg	Assistant Secretary
Michael Murphy	Vice President
Claudia Bjerre	Vice President
Melinda Lynn Tuozzo	Assistant Treasurer
Timothy Edmund Nolan	Executive Vice President

Committees

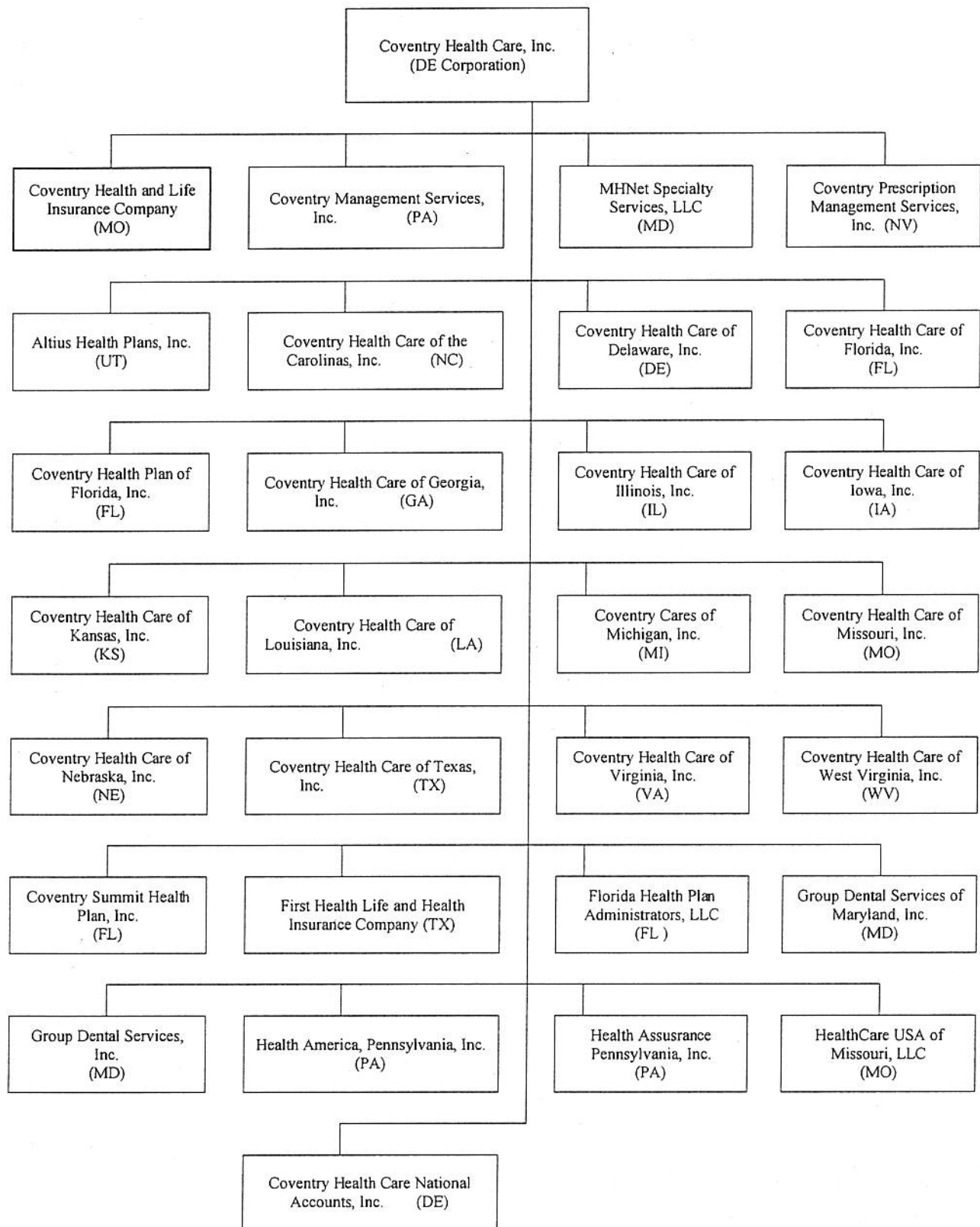
The Company does not have committees. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Coventry Health Care, Inc., the ultimate parent of its holding company system. That committee consisted of three independent directors at December 31, 2012.

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Coventry Health Care, Inc., a publicly traded Delaware holding company. Coventry Health Care, Inc. is the ultimate parent of the holding company system.

Organization Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2012. The following chart only includes the ultimate parent, the Company and other affiliates with which the Company has affiliated agreements and transactions. All subsidiaries are wholly owned unless otherwise noted.



Affiliated Transactions

The Company enters into various agreements with affiliates. At year end 2012, the Company was a party to sixty-eight intercompany agreements. The Company incurred \$222,751,739 in intercompany fees due to affiliates in 2012. In addition, the Company reported a \$10,460,382 income tax recoverable, and a \$10,068,720 deferred tax asset, pursuant to the intercompany tax allocation agreement. The tax sharing agreement and other agreements incurring fees greater than \$1,000,000 are described below:

- **Administrative Services Agreements** – The Company has multiple administrative services agreements with various affiliates, wherein the affiliate provides administrative services related to specific products. These services include management and general administrative services, sales and marketing, financial services, medical management, provider relations and contracting, and facilities and support. Fees are based on the number of members determined at the first of the month times a Per Member Per Month (PMPM) rate based on estimated cost with adjustment to actual allowed within 90 days after the end of each term of the agreement
- **Administrative Services and Underwriting Agreements** – The Company participates in two administrative services and underwriting Agreements with Coventry Health Care of Missouri, Inc. (CHCMO). In one of these agreements, CHCMO agrees to provide administrative services for the indemnity portions of CHLIC's Preferred Provider Organization (PPO) product; in the other agreement, CHCMO agrees to provide the same services for CHLIC's Point of Service (POS) product. Fees pursuant to the agreements are based on cost.
- **Global Capitation Network Participation Agreement** – The Company has multiple global capitation network participation agreements. The parties to each agreement are Coventry Health Care, Inc.; MHNet Specialty Services, LLC (MHNet); CHLIC; and various CHLIC affiliates. Under the terms of these agreements, MHNet provides mental health and substance abuse services to the specified CHC subsidiary health plans. Fees pursuant to the agreement are based on cost.
- **Global Capitation Network Participation Agreement with CHCMO** – Parties to this agreement include CHCMO, CHC and MHNet. MHNet agrees to provide CHLIC with administrative services, including utilization management, provider appeals, credentialing, claims payment, provider relations and contracting, customer service and encounter data services related to their fully insured POS and PPO business. Fees pursuant to the agreement are based on cost.
- **Management Agreement** – The Company is party to a management agreement with Florida Health Plan Administrators, LLC (FHPA), wherein FHPA provides overall management and consulting services for the business operations of CHLIC in Florida. FHPA accepts responsibility for all costs and expenses incurred for the efficient and effective operation of CHLIC in Florida, except for certain

expenses specifically excluded within the contract. Fees pursuant to the agreement are based on cost.

- **Management Services Agreements** – The Company participates in three separate management services agreements with CHC and Coventry Management Services, Inc. (CMS). Under the terms of the agreement with CHC, CHC provides management services in exchange for a management fee. Under the terms of the first agreement with CMS, CMS provides management services (including information systems and service center services) to support CHLIC's Medicare PDP plans. Under the terms of the second agreement with CMS, CMS provides management services related to Part D plans. Fees pursuant to these agreements are based on cost.
- **Pharmacy Benefits Administration Agreements** – The Company, along with various affiliates, has multiple pharmacy benefits agreements with Coventry Prescription Management Services, Inc. (CPMS), wherein CPMS provides services with respect to any pharmacy benefits offered or administered by the Company and the named affiliate. Services include pharmacy claims processing, formulary development and maintenance, development and administration of pharmacy utilization management standards, pharmacy network development and maintenance, drug rebate administration services, pharmacy benefit plan design development and recommendations, and other services reasonably necessary to administer outpatient pharmacy benefits. Fees are based on the number of members determined at the first of the month times a PMPM rate based on cost plus a group purchasing leverage amount.
- **Restated Tax Sharing Agreement** – CHC and its subsidiaries, including CHLIC, file a consolidated Federal (or state) income tax return. The Federal or state income tax liability (or benefit) and alternative minimum tax liability is calculated as if each subsidiary were to file a separate Federal or state income tax return. Payments by a subsidiary to CHC shall be made only at such time as necessary to reasonably permit CHC to make required payments. Differences between estimated tax payments and actual liabilities will be settled within 90 days of the filing of income tax returns.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond which provides \$5 million in coverage. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide commercial general liability, auto liability, employer's liability, professional liability coverages, excess liability, and workers' compensation insurance. The Company's insurance coverages appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has a small number of employees in Kentucky, Tennessee and Nevada. Employees are provided a benefit package, which includes paid sick leave, holidays, vacation, medical, dental and vision plans, health care and dependent reimbursement account (cafeteria plan), short-term and long-term disability insurance, life insurance and accidental death and dismemberment, and education tuition reimbursement.

Company employees are eligible to participate in the Coventry Health Care Retirement Savings 401K plan. Coventry Health Care, Inc. also sponsors a Management Incentive Program designed to reward key employees, consultants and directors with bonus payments based on Coventry earnings per share and individual performance evaluation.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 376 (Life, Health and Accident Insurance), and is licensed in 36 other states plus the District of Columbia.

A portion of the Company's business includes underwriting managed indemnity products marketed through affiliate health maintenance organizations. Services are typically provided under one-year contracts with employers under which the Company insures the health benefits of the employees who elect this coverage. The Company is also in the business of providing reinsurance services to affiliate health maintenance organizations and Medicare Part D members.

The Company's direct business is comprised of risk and fee-based managed care products and services, including PPO, POS, Medicare Advantage, Medicare Prescription Drug Plans (Medicare Part D) and Medicaid to a broad cross section of individuals, employer and government funded groups, government agencies, and other insurance carriers and administrators. In addition, the Company offers specific and aggregate stop-loss coverage where the insured has a high retention limit.

Business is primarily acquired through the use of independent agents/brokers, benefit consultants and directly to employer groups. The Company has agreements with its affiliates, who employ a sales force that sell and service CHLIC products to these various channels. The Company has employees in three markets (Tennessee, Kentucky and Nevada), where there is no affiliated health plan and these employees sell and service CHLIC products in those areas.

GROWTH OF COMPANY

The Company's membership increased from approximately 595,000 members at the end of the prior examination period, December 31, 2007, to 816,000 members at the end of December 31, 2008. The increase is largely due to increases in the Medicare Private Fee for Service (PFFS) membership, which doubled in 2008, its first full year since its introduction in 2007. In 2009, the Company continued to experience growth in the Medicare PFFS product, as well as approximately 40% increases in Preferred Provider Organization (PPO), Point of Service (POS), and Medicare Part D memberships. The Company exited the Medicare PFFS market in 2010 reducing overall membership counts.

In 2011, the Medicare Part D membership dropped, but the drop was offset by membership enrollment in the Kentucky Medicaid program, which began in 2011. Although membership decreased in 2012, written premium increased due primarily to an increase in Kentucky Medicaid premium.

Year	Total	Health Premiums	Capital &	Health
	Members	Written	Surplus	Premiums Written : C&S
2012	767,179	\$ 3,187,637,159	\$ 478,072,578	667%
2011	808,001	2,268,624,275	339,933,420	667%
2010	957,033	2,028,199,225	425,913,409	476%
2009	1,172,847	3,215,925,352	418,625,462	768%
2008	815,969	1,889,074,052	239,397,475	789%

LOSS EXPERIENCE

The following exhibit reflects the Company's claims unpaid and medical expense experience over the examination period. The changes in unpaid medical expenses generally coincide with changes in the business environment during the period. The large increases in unpaid medical expenses in 2011 and 2012 were mostly driven by the Kentucky Medicaid products, which were introduced in 2011.

Year	Claims Unpaid	Medical Benefits	Medical Loss Ratio
2012	\$ 374,684,044	\$ 2,352,827,383	89.30%
2011	313,285,924	1,554,110,012	82.80%
2010	231,758,003	1,073,149,984	77.60%
2009	357,232,869	2,040,301,012	90.40%
2008	205,169,561	1,001,227,022	86.50%

REINSURANCE

General

Direct written, assumed, and ceded premium for the current examination period was as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Direct Business	\$ 1,889,074,053	\$ 3,215,925,349	\$ 2,028,199,226	\$ 2,268,624,276	\$ 3,187,637,158
Reinsurance Assumed	121,526,667	124,198,097	125,308,392	129,946,383	127,835,339
Reinsurance Ceded	220,760,023	141,372,142	30,606,697	5,102,815	12,104,272
Net Premium	<u>\$ 1,789,840,697</u>	<u>\$ 3,198,751,304</u>	<u>\$ 2,122,900,921</u>	<u>\$ 2,393,467,844</u>	<u>\$ 3,303,368,225</u>

Assumed

During the examination period the Company provided excess of loss reinsurance to affiliated health plans. The coverage was similar for all reinsured affiliates, but the specifics varied. Each reinsurance contract included a deductible per member per policy year, which varied from \$150,000 to \$650,000. After the deductible was met, the

Company covered 80% or 90% of the covered claims costs, up to a maximum reimbursement of \$1 million per member per policy year.

Assumed reinsurance premiums from the affiliated health plans are actuarially determined based on a blending of individual health plan and Coventry wide experience, and are generally adjusted on an annual basis. The final premium charged to the individual health plans contains a provision for the Company's administrative expenses and risk margin. Annually, the assumed reinsurance premium rates for each health plan are approved by each respective state's Department of Insurance.

Subsequent to the examination period, the Company provided the DIFP a notice of termination for most of the intercompany reinsurance agreements effective January 1, 2014, indicating that with Coventry's acquisition by Aetna, and Aetna's strong financial performance and credit ratings, the agreements were no longer necessary. Terminated agreements accounted for approximately two thirds of the 2012 assumed premium.

Ceded

The Company reduced its use of ceded reinsurance substantially during the examination period. In 2012, the Company ceded a small amount of Medicare Part D individual stand alone prescription drug policies to Bankers Life & Casualty Insurance Company on a quota share basis. The Company did not take any related reinsurance reserve credits. Subsequent to the examination period, on August 23, 2013, the Company terminated that agreement.

The Company also ceded immaterial amounts of dental business in Virginia, and mental health business in Tennessee to affiliates Group Dental Services of Maryland, and MHNET Life and Health Insurance Company, respectively.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared using PeopleSoft financial accounting software. IDX is the Company's primary managed care application. This is the Company's core transactional system that manages in-plan services, benefit usage tracking, enrollment and eligibility, provider contracts, fee schedules, provider network affiliations, claims payment and premium billing reconciliation.

Actuarial Opinion

Reserves and related actuarial items were reviewed and certified by Tuvy Guss, Vice President and Corporate Actuary of Coventry Health Care, Inc. for each year under examination.

Pursuant to a contract with DIFP, Karen Elsom, FCAS, MAAA, of Lewis & Ellis, Inc., reviewed the underlying actuarial assumptions and actuarial methods used in determining the adequacy of reserves and other related liabilities. Her report concluded that the Company's reserves, as of the examination date, were adequate.

Independent Auditor

The Company's financial statements for each year under examination were audited by Ernst & Young LLP, Certified Public Accountants. The workpapers of the 2012 independent audit were reviewed and used during the course of this examination as deemed appropriate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2012, as reflected below, were sufficient to meet the capital deposit requirements (\$600,000) for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities):

Type of Security	Par Value	Fair Value	Statement Value
Columbia MO School District COPS	\$ 210,000	\$ 213,620	\$ 210,000
Columbia MO School District COPS	180,000	182,232	180,000
Columbia MO School District COPS	110,000	111,365	110,000
Columbia MO School District COPS	110,000	111,896	110,000
Grandview MO Certificates of Participation	30,000	30,000	30,000
Total	<u>\$ 640,000</u>	<u>\$ 649,113</u>	<u>\$ 640,000</u>

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2012, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Bond	\$ 175,000	\$ 175,793	\$ 175,776
Delaware	Wilmington US Govt Mmkt	1,000,170	1,000,170	1,000,170
Florida	Fidelity Government Port-I	1,216,565	1,216,565	1,216,565
Georgia	Wells Fargo Money Market	25,000	25,000	25,000
Massachusetts	Citibank Money Market	100,000	100,000	100,000
North Carolina	First Amer Treas Oblig Fd	447,007	447,007	447,007
South Carolina	BOA Fixed Term CD	40,000	40,000	40,000
South Carolina	Wachovia CD	151,596	151,596	151,596
Texas	US Treasury N/B	1,400,000	1,400,378	1,400,378
Texas	US Treasury N/B	795,000	794,626	794,531
Virginia	US Treasury N/B	150,000	150,000	150,000
Virginia	Federated Treasury Obl Fd	8,570	8,477	8,453
Total		<u>\$5,508,908</u>	<u>\$5,509,612</u>	<u>\$5,509,476</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2012, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 449,959,075	\$ -	\$ 449,959,075
Cash, cash equivalents and short-term investments	285,833,435	-	285,833,435
Investment income due and accrued	4,156,809	-	4,156,809
Uncollected premiums	17,943,672	-	17,943,672
Accrued retrospective premiums	34,394,908	-	34,394,908
Amounts receivable relating to uninsured plans	5,088,056	-	5,088,056
Current federal income tax recoverable	10,460,382	-	10,460,382
Net deferred tax asset	13,576,788	3,508,068	10,068,720
Guaranty funds receivable	11,703	-	11,703
Furniture and equipment	750,992	750,992	-
Receivables from parent, subsidiaries and affiliates	108,545,291	-	108,545,291
Healthcare receivables	9,367,314	256,835	9,110,479
Deposits	6,732,198	6,732,198	-
Prepays	546,887	546,887	-
State income tax recoverable	438,570	-	438,570
Total assets	<u>\$ 947,806,080</u>	<u>\$ 11,794,980</u>	<u>\$ 936,011,100</u>

LIABILITIES, CAPITAL, AND SURPLUS

Claims unpaid	\$ 374,684,044
Accrued medical incentive pool	5,267,654
Unpaid claim adjustment expenses	3,952,946
Aggregate health policy reserves	1,526,677
Premiums received in advance	33,241,302
General expenses due or accrued	24,023,023
Current federal and foreign income tax payable	-
Ceded reinsurance premiums payable	934,392
Amounts withheld or retained for the account of others	4,131,651
Remittances and items not allocated	1,052,917
Amounts due parents, subsidiaries, and affiliates	1,650,534
Liability for amounts held under uninsured plans	6,647,511
Abandoned property	825,875
Total liabilities	<u>\$ 457,938,525</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	340,163,653
Unassigned funds (surplus)	135,408,925
Total capital and surplus	<u>\$ 478,072,578</u>
Total liabilities, capital and surplus	<u><u>\$ 936,011,103</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$ 3,303,368,225	
Management fee income	102,898	
Other revenue	96,753	
Total revenues	<u> </u>	\$ 3,303,567,876

Hospital and Medical:

Hospital/medical benefits	\$ 2,352,827,383
Other professional services	-
Outside referrals	-
Emergency room and out-of-area	-
Prescription drugs	513,129,213
Incentive pool withhold	4,920,901
Subtotal hospital and medical	<u>2,870,877,497</u>

Less:

Net reinsurance recoveries	(80,520,340)	
Total hospital and medical	2,951,397,837	
Claims adjustment expenses	76,730,167	
General administrative expenses	262,818,821	
Total underwriting deductions		<u>3,290,946,825</u>
Net underwriting gain (loss)		\$ 12,621,051
Net investment income earned	\$ 13,533,737	
Net realized capital gain (loss) less capital gains tax	<u>5,743,257</u>	
Net investment gains		19,276,994
Net loss from agents' or premiums balances charged off		(1,334,311)
		<u>-</u>
Net income (loss) after capital gains tax and before federal income tax		\$ 30,563,734
Federal income tax		<u>(9,243,395)</u>
Net income		<u><u>\$ 39,807,130</u></u>

CAPITAL AND SURPLUS

	2008	2009	2010	2011	2012
Capital and surplus, December 31 prior year	\$ 126,649,673	\$ 197,701,221	\$ 388,726,171	\$ 396,896,477	\$ 339,933,420
Change as a result of merger activity	(1,683,946)		11,441,378	29,016,940	
Adjusted beginning capital and surplus	<u>\$ 124,965,727</u>	<u>\$ 197,701,221</u>	<u>\$ 400,167,549</u>	<u>\$ 425,913,417</u>	<u>\$ 339,933,420</u>
Net income	15,213,925	1,628,334	139,800,890	70,436,249	39,807,130
Change in unrealized capital gains (losses)	-	-	1,381,008	-	-
Change in net deferred income tax	3,816,328	4,571,230	1,364,141	(2,137,349)	(15,901,866)
Change in non-admitted assets	(3,721,378)	5,825,386	(4,556,569)	(539,441)	18,792,463
Cumulative effect of change in accounting principles	-	-	-	-	2,305,431
Paid in capital and surplus	57,000,000	179,000,000	(1,260,623)	(103,739,457)	95,000,000
Dividends to stockholders	-	-	(140,000,000)	(50,000,000)	-
Aggregate write-ins for gains and (losses) in surplus	426,619	-	81	-	(1,864,000)
Examination changes	-	-	-	-	-
Change in capital and surplus for the year	<u>\$ 72,735,494</u>	<u>\$ 191,024,950</u>	<u>\$ (3,271,072)</u>	<u>\$ (85,979,998)</u>	<u>\$ 138,139,158</u>
Capital and surplus, December 31 current year	<u><u>\$ 197,701,221</u></u>	<u><u>\$ 388,726,171</u></u>	<u><u>\$ 396,896,477</u></u>	<u><u>\$ 339,933,420</u></u>	<u><u>\$ 478,072,578</u></u>

COMMENTS ON THE FINANCIAL STATEMENTS

Management fees related to certain intercompany agreements with CPMS were found to be improperly reported. In some cases the Company reported related fees as direct offsets to revenue. In other cases, the fees were included as medical expenses rather than management fee expenses. SSAP No 25 (Accounting for Disclosures with Affiliates and Other Related Parties) prescribes that “transactions for services create income on one party’s books and expenses on the second party’s books.” The Company’s reporting resulted in the understatement of management fee expenses and the overstatement of medical expenses.

Management fees reported on the 2012, Underwriting and Investment Exhibit - Part 3 were understated by approximately \$72.5 million, with corresponding understatements of revenue (due to improper revenue offsets) and overstatements of claims expenses. In addition, fees paid to CPMS were not listed on the Form B Supplement, which reports fees between insurers and affiliates. The Company has agreed to correct this reporting going forward. The change in reporting will have no impact on the Company’s net income or surplus.

SUMMARY OF RECOMMENDATIONS

There are no recommendations.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of CHLIC during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned; John Boczkiewicz, CFE, Richard Hayes, CFE; Jennifer Danz, CFE, CPA; Douglas Daniels, CFE, CPA, and Amy Snyder CFE, examiners for the DIFP; participated in this examination. Andrew Balas, CFE, CPA, and DIFP Information Systems Financial Examiner, reviewed the Company's Information Systems. Consulting actuary, Karen Elsom, FCAS, MAAA, of Lewis & Ellis, Inc. reviewed the methodologies and adequacy of the Company's reserves.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Wyatt Sample

Wyatt Sample, CFE
Examiner-in-Charge
Missouri Department of Insurance,
Financial Institutions and
Professional Registration

Sworn to and subscribed before me this 18TH day of MARCH

My commission expires:

10-17-17

Janine Muser
Notary Public

JANINE MUSER
Notary Public, Notary Seal
State of Missouri
St. Louis County
Commission # 13538577
My Commission Expires October 17, 2017

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in dark ink, appearing to read "Michael Shadowens", is written over a horizontal line.

Michael Shadowens, CFE

Audit Manager, St. Louis

Missouri Department of Insurance, Financial
Institutions and Professional Registration